

Joint City Council/Port Authority Meeting

UNAPPROVED MINUTES

Joint Council Port # _____
Wednesday, October 1, 2014, 5:30 PM
Bloomington Civic Plaza
1800 West Old Shakopee Road
Bloomington, Minnesota 55431-3027

Item 1

Call to Order Council

Mayor Gene Winstead called the City Council meeting to order at 5:37 p.m.

Call to Order Port

President Robert Erickson called the Port Authority meeting to order at 5:37 p.m.

Council Present: Mayor Winstead; Council Members J. Baloga, T. Busse, A. Carlson and D. Lowman

Council Absent: Council members C. Bemis Abrams and J. Oleson

Port Authority Present: President R. Erickson; Commissioners T. Busse, C. Carey, C. Hunt, T. Keller, R. Lunz, and G. Winstead

Port Authority Absent: None.

Staff: Mark Bernhardson, City Manager
Schane Rudlang, Port Authority Administrator
Lori Economy-Scholler, Chief Financial Officer
Larry Lee, Director of Community Development

Also Present: Julie Eddington, General Counsel Port
Peter Chmielewski, Lennar
Doug Bober, Lennar

Item #2

Density Done Right – Presentation by Colleen Carey

Commissioner Carey explained she attended a housing summit this past summer and at that summit, Julie Campoli, an urban designer, spoke about density and how cities can work more effectively to have developments they want to happen, happen. Carey said she was asked to recap Campoli's presentation for a group of mayors and this evening she will be making a similar presentation to the Council and Port Board.

Commissioner Carey explained density is a hot topic for cities right now and how to accommodate density and how to make it work is part of that discussion. It is important to understand density and the proper place to put it. She further explained there are changing demographics and market preferences. She reviewed the benefits of density including more open space, consumer savings, lower infrastructure costs, social cohesion, better health and less driving.

Commissioner Carey reviewed design, parking connections, mix of uses, open space and public amenities. Council member Lowman asked if there has been any research done with regard to car sharing. Carey responded the idea of car sharing is taking off. If you drive less than 10,000 miles per year it makes more sense to join a car sharing program than to own a vehicle. Car sharing programs should be included in developments. There are "Cars to Go" in Minneapolis and those types of programs allow for less parking.

Commissioner Carey said density is the number of people in a given space and crowding is the subjective perception that the number of people (or cars) is too high. She displayed photos of density gone wrong and of density that was done right. If a destination is within a mile, approximately 40 percent would walk to shopping; 35 percent to work; 46 percent to school or

church and 60 percent to recreation. Walkability is very important. Mayor Winstead asked how they factor in the month of January for walkability since walking is determined by the weather. Commissioner Carey said she is amazed by the number of people that walk all winter long. If they don't create a walkable environment they will never get people out to walk. They have to have something to walk to. Commissioner Carey said they have to think how to design buildings and cities to transition into the future. One thing they do not want to do is build parking ramps around buildings. District thinking about parking is important to accommodate more density.

Commissioner Keller said the City has extensive wildlife areas and he does not believe they should lose those types of green space to accommodate density. He questioned how they can accommodate density without losing what they have now. Commissioner Carey said she does not advocate eliminating green space. President Erickson said he sees repositioning existing areas into higher areas. Commissioner Carey explained it is important to identify and inventory where those places are that they want to keep and then add density onto the edges of those areas. No one should live more than a five or ten minute walk to a park. Commissioner Keller said they have to factor in minimum spaces for ecology and they have to set those pieces of land aside. Mayor Winstead explained Bloomington has defined open spaces necessary for density. For example, they have the river bottom and much of it is not accessible and he questioned what value is that when it comes to density. There are ball fields and parks in the City and they need to do a good job in defining those spaces. Commissioner Keller asked in order to maintain the type of wildlife they now have, where do they draw the line. Commissioner Carey responded she is not saying they take green space and convert it to density. They need to connect the green spaces they have. Commissioner Keller said they need to inventory what they have and it may not be a good idea to have some of that space accessible. Before they decide what their trade offs are they have to define what they have. He said they need to inventory what they have and then decide what they need to have.

Commissioner Carey said the City needs a clear vision of what they want and then they need to communicate that well. They also need to prioritize the overall community benefits versus existing perceived negative impact. Areas that support higher density and have the best chance for long-term success need to be identified and they need to support regulatory and financial tools. Leadership also needs to support mixed income housing by adopting mixed income policies and ordinances and to encourage creation of funds to support mixed income housing.

Larry Lee, Director of Community Development, said staff had distributed to the Boards a sheet showing 2013 household and family income comparisons. This sheet shows the size of the issue with regard to affordability and compares household income, the amount spent on housing for the 13-county region as a whole and Bloomington.

Mayor Winstead suggested that this presentation also be made to the Planning Commission because it would be beneficial for them to be exposed to this.

Council member Busse said increasing density to develop housing increases the number of people in an area which brings additional responsibilities including police coverage, trash pickup, street scaping, etc. This is not what they currently have in the City's neighborhoods. These areas will generate additional tax dollars and he questioned if that money would go to support the additional City services. Commissioner Carey said additional analysis on a per unit basis could show what additional services need to be provided and could also show how they need to budget for those services. Council member Baloga said this presentation makes him think about the Penn and American development and how much open space they are planning for that development.

**Item #5
Bloomington Central
Station (BCS) –
Residential
Development
Agreement Outline**

Rudlang explained the Bloomington Central Station Redevelopment Contract was executed on February 25, 2005. The original contract allows for various funding mechanisms of the multi-phase BCS development. Public investment ratios were established at 10 percent for hotel and office uses, up to 12 percent for residential, with an overall rate of 10 percent. Staff originally brought a draft term sheet to the Council and Port board in July 2013 outlining a proposal for City/Port investment in the project. Since that date, Lennar has been refining the project, procuring quotes from contractors and completing their proforma. Rudlang further explained the updated term sheet generally reflects the terms the Council and Port reviewed in 2013. The

City/Port would be providing a subsidy of 19.4 percent for the project by writing down the purchase price of the land, using TIF to finance a parking ramp and reimbursing Lennar for special assessments (with available TIF) related to the public improvements for the project. A recapture agreement would be part of the subsidy package, providing protection for the public investment should Lennar see profits exceeding normal market ranges.

Peter Chmielewski, representative from Lennar, reviewed the proposed project and provided background on Lennar. He reviewed their Master Plan explaining they plan to bring the outside in creating a different atmosphere in four different court yards with four different themes. They are not just building a building to live in but a community for people to engage in. Chmielewski showed renderings of the building and indicated there will be 200 bike spaces and a work shop as part of the amenities. There will be designated parking spots for electric vehicles and zip cars. They believe they are over required parking which provides them with an opportunity to use some of that parking in the Phase B development. Chmielewski stated their plan addresses a lot of the things discussed earlier this evening when they talked about density.

President Erickson explained when they talked about this area ten years ago they talked about residential versus commercial development. At that time the consensus was that they were willing to invest more for residential because they didn't have Fiscal Disparities. With this proposal, they are getting something that is very important and if they want to realize their dream of having housing in this area this proposal is something that will help them get that started.

Rudlang reviewed the proposed land write down explaining the Port purchased 4.845 acres in October 2005 on a loan from the South Loop Development Fund. The original purchase price was \$5,273,000 and they are proposing to write down the land to \$1,123,000 resulting in a public investment of \$4,140,000. With regard to the parking ramp, the estimated project cost is \$6.8 million. The proposed bonding amount would be \$7.655 million (including capitalized interest) with payments coming from TIF generated by the residential project.

Mayor Winstead asked the status of TIF generated outside of the residential project. Rudlang responded it is much better after 2013 legislation. Two loans were made to McGough to catch them up on special assessments which they were not reimbursed for because TIF was not performing. An advanced payment of \$2 million for special assessments was made and that money will be repaid within the next five or six years. There will be a period of time where TIF will be taken to pay off those loans. The project is generating substantial TIF now and 2013 legislation also helped this project.

Rudlang said they had talked about the South Loop Development Fund helping to reduce the borrowing costs. The Port Authority does not have a levy that has been used but the South Loop Development Fund functions as the Port Authority levy. This fund is valuable and without it they would not be doing this project without looking at a levy, which increases property taxes.

Rudlang explained the parking ramp will be owned by Lennar and they have agreed to add to the final agreement an opportunity to share parking in the next phase. This will help to deal with uncertainty in the next 20 years. He also explained the adjacent public improvements will be assessed to the property. The total public investment is \$12.5 million including the land write-down, parking ramp, adjacent public improvements and demolition allocation. Rudlang said staff has talked about the City purchasing the bonds. The current City investment policy restricts municipal investments to a five-year term, therefore, it would be necessary to change the policy to allow the City to purchase the bonds. President Erickson said the City's investments may have a lower interest rate for a couple of years. There may be a three percent differential but the City would have the ability to call the bonds as a method to protect themselves. President Erickson said he would like them to look very seriously at the City being able to purchase the bonds.

Rudlang presented a cash flow example for years one and two. Mayor Winstead pointed out this example does not consider the write-down of the land which is \$4 million. Rudlang explained the annual escrow sharing of funds can offset that. Rudlang pointed out the project would have affordable housing with eight project-based vouchers and the developer agrees to achieve a higher ratio in future phases. He also explained there will be recapture of up to 50 percent of public investment for profits exceeding market norms. There will be a five-year look back window or upon sale after stabilization.

Rudlang said staff is recommending moving forward with the proposed terms and with drafting of agreements.

Council member Baloga asked how long construction would take once it is started. Chmielewski responded it would take two years. This is a phased project with four phases. The first phase would be completed one year after construction begins. The ramp will be constructed first. Commissioner Carey asked what the total development cost is for this project. Chmielewski said on average it would be \$1.73 per square foot. The total development cost will depend on public versus private funding. Rudlang explained the private cost is \$65.3 million plus a subsidy of \$12 to \$13 million. Commissioner Carey said she likes the design of this project. She is, however, disappointed that there is not more affordable housing. She understands it is difficult to accomplish this but it won't get done if they don't figure out how to add affordable housing to projects such as this. Chmielewski stated affordable housing is driven by the market. Lennar has certain thresholds of financing and what they can get financing for. They are getting less of a financial return on this project than they typically do. There is a threshold they have to hit in order to get financing. Lennar is trying to mitigate some construction cost to make this feasible.

Council member Carlson said he is underwhelmed by this project and feels a \$12 million subsidy should allow for more than eight affordable housing units. He said he is very leery of spending \$12 million for essentially a for profit development. Rudlang explained staff worked with the Housing and Redevelopment Authority and met with half a dozen residential developers trying to build residential in South Loop. They did not get a second meeting with any of those developers and it was very discouraging. He pointed out this is not the only site in South Loop that can be developed residential. Staff has worked hard to make sure this pro forma doesn't have any fluff in it. This is a development that is very dense which meets one of the goals the South Loop District plan. It is staff's opinion that in order for them to do this project they have to do this project as presented. Council member Carlson suggested they wait a few years and then talk to those developers to see if they are ready to develop something in South Loop. Rudlang explained since 2006 there have been no residential developments interested in South Loop. Lee pointed out that at Penn and American two years ago higher end residential apartments were completely unproven. Development has proven the potential for residential to the point they have a lot of interested developers that are talking about additional development. The Genesee project proved the potential for the type of housing product model. Lennar is willing to do a large project that proves there is a potential for residential which is very important to this site.

Council member Carlson said if they are going to be a partner in this project they should be achieving their goals. If the compromise is to set aside their goals, they should be assured that additional affordable housing is made up in future developments and that their goals are met. President Erickson pointed out if this project is successful they do have the recapture provision. In a case like this, the recapture provision gives him a great deal of comfort.

Chmielewski explained they have worked hand in hand with the City to come to a solution. There is a certain level of realism in financing and you have to meet certain thresholds. Lennar is taking a risk on this development and are underwriting rents. If they could meet financing criteria with six percent affordable housing they would do that but it is not possible. Chmielewski said they are trying to minimize the amount of money that comes from the City but still make this a feasible development. He indicated they are proud of the development they have put together and the concepts put into it.

Commissioner Lunz said he is pleased Lennar decided to take the risk. He likes the floor plan and the court yards. However, he feels the architects are stuck in a rut when it comes to the outside of the building. They all look alike. Commissioner Lunz said he would love to see some fresh architectural thinking. Chmielewski responded it is his hope Phase II does not look like Phase I and that they are able to develop it.

Council member Lowman stated that out of 394 units in this phase they only have eight affordable units. In looking at second and third phases, he asked how they are going to include affordability in those future phases and get closer to having 22 affordable units. Lee responded this is a question for the Housing and Redevelopment Authority (HRA) and not the developer. The Met Council establishes goals for cities for affordability. They need to come up with a tool or financing

to make it affordable. HRA had certificates for assistance and were only able to come up with eight certificates for this project. At least that is a first step. Lee explained cities really need a financial tool to assist making affordable housing available and that it is not the developers' problem but a city, regional government and State problem to work out.

Council member Carlson said he believes this is a pioneer site and it takes a big example on the part of the developer. It is also important for cities to make an effort to see new activities in affordable housing and it won't happen otherwise. He believes they should be building affordable housing with new options for people. Nothing will change in how they deliver affordable housing unless cities step forward. He suggested they look at eliminating some of the extra parking spaces and build affordable housing. This is a pioneer development and they won't get affordable housing if they don't get bold and say this is what has to happen. As long as they are okay with eight affordable units there will be no change in the system.

Mayor Winstead said it is their hope the over parking will be used in the second phase so they don't have to build additional parking. While there is nothing required at this time regarding affordable housing, it will be a definite element in future development.

Commissioner Lunz asked how parking would be handled if another developer is chosen to develop the second phase. Bernhardson said it would occur with an easement and this is something staff is currently working on.

Council member Busse said he is glad to have Lennar on board. He feels it is a nice development and they have done a great job with the sound proofing and he is looking forward to this development and the beginning of Phase II.

Rudlang said no formal action is required this evening. Various agreements will be brought back to the Council and Port at a later date for approval. Staff will continue to move forward as discussed this evening.

**Item #3
Approve Amendment to
2008 Public
Improvements
Agreement Between
MOAC and the City and
Adopt a Resolution
Approving Amendment
to Petition
R-2014-_____**

Rudlang reported the 2008 Public Improvements Agreement between MOAC and the City included three projects that were to be constructed by the City and the costs partially specially assessed to the Mall of America. In the agreement, the term of the special assessment for all projects was listed at 20 years. On January 3, 2012 the Council accepted a Petition from the Mall of America to complete the Killebrew Street Improvement project, with a maximum assessment of \$175,000 over 20 years. The assessment amount is small compared to other special assessments at the Mall of America and so it was requested that the MOA consider amending the term for just this portion of the Killebrew Street Improvement to ten years instead of 20 years. MOA has agreed to this change of term.

City Council Action:

M/Baloga, S/Busse, and all members present voting aye to approve the Amendment to the 2008 Public Improvements Agreement between MOAC Mall Holdings LLC and the City of Bloomington and to adopt a Resolution declaring adequacy of amended petition for City Project 2013-101 Killebrew Drive roadway project. The motion carried, 5-0.

Port Authority Action

M/Hunt, S/Lunz, and all members voting aye to approve the Amendment to the 2008 Public Improvements Agreement between MOAC Mall Holdings LLC and the City of Bloomington. The motion carried, 7-0.

**Item #4
Alpha Business Center
Parcel B – Agreement
Outline**

Rudlang reviewed the South Loop Plan Goals and explained in May, 2010, the City acquired the Alpha Business Center parcels to obtain rights-of-way to extend Lindau Lane from 24th Avenue to 30th Avenue. Terratron Development is building a hotel on Alpha Parcel A. Residential development is not allowed in this area due to the airport runway protection zone.

Rudlang further explained, over the past year, staff and Terratron have been refining the Alpha B site plan and financial projections. The current site plan includes a 140-room hotel, coffee shop, restaurant, grocery or pharmacy and shared parking ramp. Terratron is in the final phases of securing tenants and hotel flags for the project components, with the exception of the

grocery/pharmacy, which is proving more difficult. Staff has performed a Needs Analysis on the developer's proforma. Given the density, land uses and parking demand of the proposed project, the need for public investment is apparent in order for market rates of return to be realized. Rudlang said there have been discussions regarding how many more hotel rooms can the City support. Today there are 8,309 hotel rooms in the City with 980 rooms on line for a total of 9,279. The City has averaged the addition of 150 rooms per year.

Rudlang reviewed the draft terms for the Alpha B site including the developer agreeing to build a hotel, coffee shop and restaurant (\$25 million private cost without grocery/pharmacy); City/Port agrees to fund parking structure; Public Plaza Agreement modeled after Alpha A Plaza; Recapture Agreement; and, phased grocery/pharmacy site. The developer has two years to find grocery/pharmacy tenant and if the developer is unsuccessful, the Port has two years to secure a tenant. If the Port is unsuccessful, the Port may develop any allowed use. He also reviewed the calculation for public private ratios.

Council member Baloga said he feels they are forcing a grocery/pharmacy into this location while all of the housing is to the east. The grocery should be closer to the housing. They talk about walkability but yet it seems they are creating an impediment to it and to possibly hold a parcel for four years for grocery development does not seem right. Council member Baloga said he supports the need and desire for a grocery/pharmacy concept but he would feel more comfortable if it were closer to housing. Rudlang responded they have talked a lot about this. They have had meetings with City planning staff on how to orient this site. The streetscape on Lindau Lane provides an urban feel while a grocery store would probably be a one or two story building versus much taller buildings on Lindau Lane and there really isn't any other location for a grocery/pharmacy. Rudlang said the developer is confident they will get something in there especially once the transit station is built.

Other Business – City Manager Search

Mayor Winstead reported to the City Council the status of the City Manager search. He is aware of 15 applicants so far. The preliminary cutoff date is October 6 but will remain open until a replacement has been hired. Mayor Winstead said he, the HR Director and the consultant will take a first look at the applicants or resumes and narrow that number down. A small committee will be formed to interview those applicants and when that number is narrowed down those applicants will be interviewed by the entire City Council.

Council member Lowman said he would like to look at some of those resumes. Also, he said he would hope they don't limit themselves to a certain number to be interviewed. Mayor Winstead said they will provide the names and an overview of the candidates to the Council. Council member Baloga said he would like to see at least five applicants come forward.

Adjournment

The City Council meeting was adjourned at 8:10 p.m.

The Port Authority convened to their regular meeting after which they adjourned at 8:32 p.m.